

CITY OF MELBOURNE, IOWA

Independent Auditors' Report
Basic Financial Statements and
Supplemental Information and Findings

June 30, 2010

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City of Melbourne, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stanley C. Randall	Mayor	December 2013
John White	Mayor Pro Tem	December 2013
Tom Eckhart	Council Member	December 2013
Carol Pelfrey	Council Member	December 2011
Stephanie Smith	Council Member	December 2011
David Gibbs	Council Member	December 2011
Marilyn K. Purdy	City Clerk	Indefinite
Sharon Soorholtz Greer	City Attorney	Annually

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Melbourne

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Melbourne, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Melbourne's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited since June 30, 2006. Accordingly, we were unable to satisfy ourselves as to the distribution of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determine to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Melbourne as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports as dated below on our consideration of the City of Melbourne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The City has not presented the Management's Discussion and Analysis that U.S generally accepted accounting principles has determined is necessary to supplement, although not required to be a part of, the basic financial statements. Also, the Budgetary Comparison information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Melbourne's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

June 21, 2011

Pollard and Company P.C.

City of Melbourne, Iowa

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2010

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 76,542	\$	\$ 17,649	\$
Public works	110,622		73,653	
Health and social services	1,668			
Culture and recreation	98,325	22,615	7,046	
General government	42,321	2,725		
Debt service	24,760			
Capital projects	46,815			15,740
Total governmental activities	401,053	25,340	98,348	15,740
Business type activities				
Water	117,455	122,032		
Sewer	121,827	87,625		
Total business type activities	239,282	209,657		
Total	\$ 640,335	\$ 234,997	\$ 98,348	\$ 15,740
General Receipts				
Property tax levied for				
General purposes				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets (Deficit)				
Restricted				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash
Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (58,893)	\$	\$ (58,893)
(36,969)		(36,969)
(1,668)		(1,668)
(68,664)		(68,664)
(39,596)		(39,596)
(24,760)		(24,760)
(31,075)		(31,075)
(261,625)		(261,625)

	4,577	4,577
	(34,202)	(34,202)
	(29,625)	(29,625)
\$ (261,625)	\$ (29,625)	\$ (291,250)

159,360		159,360
68,488		68,488
9,034	5,011	14,045
15,342		15,342
252,224	5,011	257,235

(9,401)	(24,614)	(34,015)
678,247	(44,780)	633,467
\$ 668,846	\$ (69,394)	\$ 599,452

\$ 17,844	\$	\$ 17,844
1,288	12,771	14,059
141,199		141,199
508,515	(82,165)	426,350
\$ 668,846	\$ (69,394)	\$ 599,452

City of Melbourne, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Fire Association LOST
Receipts				
Property Taxes	\$ 129,891	\$	\$ 29,469	\$
Other City Tax	34,244			8,561
Licenses and Permits	2,725			
Use of Money and Property	15,635			
Intergovernmental	24,695	73,653		
Charges for Services	22,615			
Miscellaneous	7,342			
Total Receipts	237,147	73,653	29,469	8,561
Disbursements				
Operating				
Public Safety	61,874		5,246	4,711
Public Works	14,116	94,805	1,701	
Health and Social Services	1,668			
Culture and Recreation	91,362		6,963	
General Government	37,822		4,499	
Debt Service	4,000	3,081		
Capital Projects				
Total Disbursements	210,842	97,886	18,409	4,711
Excess (deficiency) of receipts over (under) disbursements	26,305	(24,233)	11,060	3,850
Other financing sources (uses)				
Operating transfers in				
Operating transfers out				
Total other financing sources (uses)				
Net change in cash balances	26,305	(24,233)	11,060	3,850
Cash balance - beginning of year	482,210	42,077	71,726	
Cash balance - end of year	\$ 508,515	\$ 17,844	\$ 82,786	\$ 3,850
Cash basis fund balances				
Unreserved				
Debt service	\$	\$	\$	\$
General fund	508,515			
Special revenue funds		17,844	82,786	3,850
Total cash basis fund balances	\$ 508,515	\$ 17,844	\$ 82,786	\$ 3,850

The accompanying notes to financial statements are an integral part of this statement.

First Responders LOST	Sinking Fund LOST	Pool	Recreation Center	Total
\$	\$	\$	\$	\$
8,561		8,561	8,561	159,360
				68,488
				2,725
		8	1,391	17,034
				98,348
				22,615
		15,740		23,082
8,561	-	24,309	9,952	391,652
4,711				76,542
				110,622
				1,668
				98,325
				42,321
	17,679			24,760
		46,815		46,815
4,711	17,679	46,815		401,053
3,850	(17,679)	(22,506)	9,952	(9,401)
	17,122	18,373		35,495
		(8,561)	(26,934)	(35,495)
		9,812	(26,934)	
3,850	(557)	(12,694)	(16,982)	(9,401)
	1,845	37,416	42,973	678,247
\$ 3,850	\$ 1,288	\$ 24,722	\$ 25,991	\$ 668,846
\$	\$ 1,288	\$	\$	1,288
				508,515
3,850		24,722	25,991	159,043
\$ 3,850	\$ 1,288	\$ 24,722	\$ 25,991	\$ 668,846

City of Melbourne, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2010

	Water	Sewer	Total
Operating receipts			
Charges for service	\$122,032	\$87,625	\$209,657
Operating disbursements			
Business type activities	101,302	79,097	180,399
Excess of operating receipts over operating disbursements	20,730	8,528	29,258
Non-operating receipts (disbursements)			
Interest on Investments	1,308	3,703	5,011
Capital Projects	(12,153)		(12,153)
Debt Service	(4,000)	(42,730)	(46,730)
Total non-operating receipts (disbursements)	(14,845)	(39,027)	(53,872)
Excess (deficiency) of receipts over (under) disbursements	5,885	(30,499)	(24,614)
Cash balances - beginning of year (Deficit)	(33,541)	(11,239)	(44,780)
Cash balances - end of year (Deficit)	(\$27,656)	(\$41,738)	(\$69,394)
Cash basis fund balances (Deficit)			
Reserved for debt service	\$	\$12,771	\$12,771
Unreserved	(27,656)	(54,509)	(82,165)
Total cash basis fund balances	(\$27,656)	(\$41,738)	(\$69,394)

The accompanying notes to financial statements are an integral part of this statement.

City of Melbourne, Iowa
Notes to Financial Statements
June 30, 2010

1/ Summary of Significant Accounting Policies

The City of Melbourne is a political subdivision of the State of Iowa located in Marshall County and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by participating governments. City officials are members of the following boards and commissions: Marshall County Assessor's Conference Board, the Jasper County Emergency Management Agency and the Marshall County Solid Waste Commission.

The City has entered into a 28E with the City of Rhodes to share a law enforcement officer and associated equipment. The City employs the officer and the City of Rhodes pays a portion of the costs. Also, the 28E agreements with Logan and Washington townships commit the City to provide fire protection with the townships paying part of the costs.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employees Benefits is used to account for the tax levy and the disbursement of the benefits.

The Local Option Sales Tax Fund is used to account for the collection and expenditure of local option sales taxes and allocation to the sinking fund.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system/

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Melbourne maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

3/ Bonds Payable

Annual debt service requirements for general obligation and revenue bonds are as follows:

Year Ending June 30,	General Obligation Local Option Sales Tax Bond		Lease Purchase- Truck/Snowplow		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 9,901	\$ 7,777	\$ 12,128	\$ 2,953	\$ 25,000	\$ 14,010	\$ 47,029	\$ 24,740
2012	10,342	7,336	12,807	2,274	26,000	13,260	49,149	22,870
2013	10,843	6,835	13,525	1,557	26,000	12,480	50,368	20,872
2014	11,348	6,330	14,282	800	27,000	11,700	52,630	18,830
2015	11,875	5,803			28,000	10,890	39,875	16,693
2016-2020	68,176	20,215			155,000	41,050	223,176	61,265
2021-2025	49,013	4,021			180,000	16,500	229,013	20,521
Total	\$ 171,498	\$ 58,317	\$ 52,742	\$ 7,584	\$ 467,000	\$ 119,890	\$ 691,240	\$ 185,791

General Obligation Local Option Sales Tax Bond-

The City has pledged 25 % of the future local option sales tax receipts to repay a \$190,000 general obligation sales tax bond issued in June 2008. Proceeds from the bond provided financing for the construction and equipping of a municipal swimming pool and recreation center. In the event the annual receipts are not sufficient to service the debt, the City will be required to levy property taxes since it is also a general obligation of the City. To date, the local option taxes have been sufficient to service the debt.

Lease Purchase-

In January 2009, the City entered into a municipal lease with option to purchase a truck/ snowplow. The annual payments must be appropriated each year in the City's budget and paid to the lessor to permit purchasing the unit for \$1.00 in June 2014. The City anticipates appropriating the necessary payments and, therefore, consider the obligation to be a lease purchase arrangement.

Sewer Revenue Bonds-

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$ 589,000 of sewer revenue bonds issued in March 2005. Proceeds from the bonds provided financing for the construction of improvements to the sewage treatment system. The bonds are payable solely from the sewer customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require all of the net receipts. The total principal and interest remaining to be paid on the bonds is \$ 586,890. For the current year, principal and interest paid and total customer net receipts were \$38,730 and \$12,230, respectively.

The resolution providing for the issuance of the sewer revenue bonds include the following provisions.

- The bonds will only be redeemed from the future earnings of the sewer activity and the bond holders hold a lien on the future earnings of the sewer fund.
- Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next bond principal and interest payments.

The City increased the sewer rates effective July 1, 2011.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2010, was \$9,925, which is equal to the required contribution for that year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours and sick leave for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is \$2,000.

This liability has been computed based on rates of pay as of June 30, 2010.

6/ Risk Management

- a) The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Monroe's annual contributions to the Pool for the year ended June 30, 2010 were \$24,248.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

- b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdictions. The City has executed a Worker's Compensation coverage agreement with the Association which extends through June 30, 2010 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2010, the City paid worker's compensation insurance premiums of \$5,621 to the Association.

7/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

	Transfer To		
	LOST Pool	LOST Sinking Fund	Total
Transfer from			
Local Option Sales Tax			
Pool		8,561	8,561
Recreation Center	13,373	8,561	21,934
	<u>\$ 13,373</u>	<u>\$ 17,122</u>	<u>\$ 30,495</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8/ Local Option Sales Tax

The local option sales tax was passed in 1999 and specified the allocation to be 50% to the General Fund for property tax relief and 12.5% each to the Melbourne Fire Fighters Association, Melbourne First Responders, Inc., the Pool and the Recreation Center. In June, 2008, 25% of the total receipts each year were pledged on the general obligation local option sales tax bond. See note 3.

9/ Deficit Fund Balances

At June 30, 2010, the Water and Sewer had deficit balances of \$27,656 and \$41,738, respectively. The deficits were a result of expenditures exceeding receipts. Effective July 1, 2011, the City increased water and sewer rates to produce an excess of receipts over disbursements. Any excess not used for debt service or capital expenditures will be used to eliminate the deficits.

10/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

City of Melbourne, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2010

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 159,360	\$	\$ 159,360
Other city tax	68,488		68,488
Licenses and permits	2,725		2,725
Use of money and property	17,034	5,011	22,045
Intergovernmental	98,348		98,348
Charges for Service	22,615	209,657	232,272
Miscellaneous	23,082		23,082
Total Receipts	<u>391,652</u>	<u>214,668</u>	<u>\$ 606,320</u>
Disbursements			
Public safety	76,542		76,542
Public works	110,622		110,622
Health and social services	1,668		1,668
Culture and recreation	98,325		98,325
General government	42,321		42,321
Debt service	24,760	46,730	71,490
Capital projects	46,815	12,153	58,968
Business type activities		180,399	180,399
Total Disbursements	<u>401,053</u>	<u>239,282</u>	<u>640,335</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(9,401)</u>	<u>(24,614)</u>	<u>(34,015)</u>
Balance - beginning of year (Deficit)	678,247	(44,780)	633,467
Balance - end of year (Deficit)	<u>\$ 668,846</u>	<u>\$ (69,394)</u>	<u>\$ 599,452</u>

See accompanying independent auditors' report.

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 154,323	\$ 154,323	\$ 5,037
68,768	68,768	(280)
1,090	1,090	1,635
14,600	14,600	7,445
92,400	92,400	5,948
236,825	236,825	(4,553)
44,300	44,300	(21,218)
612,306	612,306	(5,986)
89,859	94,859	18,317
130,460	135,460	21,757
5,200	5,200	3,532
214,085	214,085	115,760
84,650	89,650	47,329
		(68,409)
		(58,968)
325,768	325,768	145,369
850,022	865,022	224,687
(237,716)	(252,716)	218,701
237,715	237,715	395,752
\$ (1)	\$ (15,001)	\$ 614,453

City of Melbourne, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$15,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, the final to net variance column exceeded the amounts budgeted in Debt Service and Capital Project functions because the final budget contained the amounts in other functions, which if reclassified, the disbursements would not have exceeded the amount budgeted.

City of Melbourne, Iowa
Schedule of Indebtedness
For the year ended June 30, 2010

Schedule 1

	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bond			
General Obligation Local Option Sales Tax	June 16, 2008	4.60%	\$ 190,000
Lease Purchase- Truck/ Snowplow	January 30, 2009	5.59%	\$ 63,051
Revenue Bonds			
Sewer Revenue Bonds	April 7, 2005	3.00%	\$ 589,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 180,959	\$	\$ 9,461	\$171,498	\$ 8,217
	63,051	10,309	52,742	4,773
491,000		24,000	467,000	14,730

City of Melbourne, Iowa
Bond and Note Maturities
June 30, 2010

Schedule 2

Local Option Sales Tax			Lease Purchase- Truck/ Snowplow			Sewer Revenue Bonds		
Issued June 16, 2008			Issued June 30, 2009			Issued April 7, 2005		
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount		
2011	4.60	\$ 9,901	5.59	\$ 12,128	3.00	\$ 25,000		
2012	4.60	10,342	5.59	12,807	3.00	26,000		
2013	4.60	10,843	5.59	13,525	3.00	26,000		
2014	4.60	11,348	5.59	14,282	3.00	27,000		
2015	4.60	11,875			3.00	28,000		
2016	4.60	12,414			3.00	29,000		
2017	4.60	13,006			3.00	30,000		
2018	4.60	13,611			3.00	31,000		
2019	4.60	14,245			3.00	32,000		
2020	4.60	14,900			3.00	33,000		
2021	4.60	15,601			3.00	34,000		
2022	4.60	16,326			3.00	35,000		
2023	4.60	17,086			3.00	36,000		
2024	4.60				3.00	37,000		
2025	4.60				3.00	38,000		
		<u>\$171,498</u>		<u>\$52,742</u>		<u>\$ 467,000</u>		

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of The City Melbourne, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The City of Melbourne's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over financial reporting, described in Part 1 of the accompanying Schedule of Findings, which we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Melbourne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Melbourne and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

June 21, 2011

Pollard and Company P.C.

CITY OF MELBOURNE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

PART I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS

I-A-10 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- 1) Receipts-Opening mail, collecting at City Hall, listing and depositing cash receipts, posting to computer, bank deposits, and bank account reconciliations.
- 2) Payroll- preparation, posting to computer and distribution.
- 3) Investments- detailed record keeping, custody reconciling and posting to the general ledger.
- 4) Disbursements- check preparation and posting to the general ledger.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible.

Conclusion

Response accepted.

PART II Other Findings Related to Statutory Reporting

II-A-10 Certified Budget

The certified budget for the year ended June 30, 2010 did not contain opening balances.

Recommendation

Certified budgets should contain the correct opening and the anticipated ending balances

Response

Future budgets will be adjusted to provide the correct opening and ending balances.

Conclusion

Response accepted.

II-B-10 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-10 Business Transactions

There were no business transactions between the City and City officials or employees during the year.

II-E-10 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

II-F-10 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-10 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-10 Revenue Bonds

As noted in Note 3, the City was not in compliance with the sewer revenue bond resolution.

Recommendation

The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required by the revenue bonds.

Response

The rates were reviewed in 2011 and will be increased effective July 1, 2011.

Conclusion

Response accepted.

II-I-10 Public Hearing for Lease Purchase Agreement

The City did not hold a public hearing before entering into a lease purchase agreement as required by Section 364.4 and 384.25 of the Code of Iowa.

Recommendation

Prior to entering into any debt agreement, the City should hold a public hearing as required by Chapter 364.4 of the Code of Iowa. The City should consult with the city attorney on this matter.

Response

In the future, we will follow the appropriate Code sections. For the current matter, the City will consult with its attorney and, if necessary, will hold a public hearing.

Conclusion

Response accepted.

II-J-10 Financial Condition

The Water and Sewer Funds had deficit balances at June 30, 2010 of \$ 27,656 and \$41,738, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 9 of the financial statements indicates the City's plans to eliminate the deficits.

Conclusion

Response accepted.

II-K-10 Annual Report

The annual report to the Auditor of State, due December 1 of each year, contained, for the year ended June 30, 2010, closing and opening balances which did not match the fund balances contained in the books and records.

Recommendation

The annual report for the year ending June 30, 2011 should reflect the audited June 30, 2010 opening fund balances.

Response

We will investigate the necessary steps to report the correct balances.

Conclusion

Response accepted.